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Mexican citrus worker

U.S. Citrus Exports Heading Up

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In this issue:

2 **U.S. Citrus Exports May Be Heading for New Record**
By Edwin Bauer

4 **Italy's Cotton Textile Firms Expanding Fiber Use**
By Dewey L. Pritchard

6 **200 Years of U.S. Farm Trade Policy—Part II—Increased Interdependence, 1947-76**
By Robert L. Tontz

9 **U.S. Exports to Mexico Clouded by Peso Devaluation**
By O. Halbert Goolsby

This week's cover:

A picker in a Mexican citrus grove near Rioverde. Mexico is a producer and exporter of citrus juices, competing in the world market with such countries as the United States, Brazil, Israel, and Spain. For a report on world citrus activitity, see article beginning this page.

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U.S. Citrus Exports May Be Heading for New Record

By EDWIN BAUER
Foreign Commodity Analysis, Fruit and Vegetable
Foreign Agricultural Service

UNITED STATES CITRUS exports in 1975/76 may be headed past last season's record of $245 million worth of fresh citrus and $76 million of citrus juice, largely because of greater shipments to Europe of grapefruit and summer oranges, with more modest gains for lemons. Japan, the No. 1 market for U.S. lemons and grapefruit, has stabilized its imports, at least for the present.

This season's through-June export tally of 707,000 tons of fresh citrus, valued at $188.3 million, and orange and grapefruit juices worth $57.9 million were slightly ahead of the 1974/75 pace. U.S. fresh grapefruit to the European Community has been the outstanding performer of 1975/76. (All tons are metric.)

Outlook for U.S. citrus exports in the near future is mixed. Successful marketing of U.S. red and pink grapefruit in the EC—during the last 2 years in particular—provides encouragement for future sales, while summer orange exports appear to have been aided by the EC's lower summer tariffs introduced in May 1974. However, restrictive action by the EC, Japan, and Australia during the past season dampens U.S. trade prospects in both fresh citrus and citrus juices. The near-term outlook for greater orange concentrate exports is also clouded by continuing increases in Brazil's orange production.

Since 1973/74, Europe has been the most active U.S. growth market for fresh citrus exports. U.S. fresh citrus exports to the Continent reached 272,000 tons in 1974/75, 92 percent higher than in 1972/73. The EC accounted for the bulk of this increase. Most of the gain has been in grapefruit and summer oranges, with more modest gains scored by lemons.

However, the United States is faced with strong competition in the EC from a number of Mediterranean citrus-producing countries whose fresh citrus and citrus products are allowed to enter the Community under preferential arrangements. These preferences are in the form of reductions in the Common External Tariff rate, ranging from 40 percent for fresh citrus from several countries to 80 percent for others. In renegotiating several of its preferential trade arrangements, the EC has further lowered the duties assessed on citrus imported from Israel, Morocco, Tunisia, and Algeria.

Negotiations that would reduce even more the tariffs paid by Egypt, Turkey, and Lebanon are underway. Since only the Mediterranean countries are being granted these lower tariff rates, the most-favored-nation principle of the General Agreement on Tariffs and Trade (GATT) has been breached. The preferential rates also impair the value of the tariff binding for which the United States paid during its negotiations by lowering U.S. tariffs of comparable value to the EC.

One trade report indicates that orders for U.S. citrus juice in the EC this year and next year have been or will be cut because of lower prices for juice from countries with preferential rates.

ACCORDING TO another report, a 10 percent increase in the volume of oranges processed in Italy in 1975/76 will result from the EC's decision to pay a processing subsidy equal to 25-50 percent of the price paid to growers. Presumably the juice from this processing will flow into export channels.

Compounding the injury to the U.S. citrus industry, the EC has compensated Italy's citrus growers for the easier access accorded to Mediterranean area non-EC countries by establishing a lemon export subsidy and increasing the already existing orange subsidy on Italy's exports to other EC member countries. The lemon subsidy—equivalent to US$1 per 38-pound carton during the 1975/76 winter season—could displace some of the 50,000-60,000-ton market that the United States has gradually developed in the EC. Data available through mid-March show that Italy's citrus exports have benefited from

Citrus workers (left) pack oranges in string bags at Sicilian plant. Above, Japanese workers grade Mikan oranges. Italy was the top producer of lemons in 1975/76 and is a major producer of other citrus fruits. Japan is the major market for U.S. grapefruit and lemons.

the generous EC subsidies: Orange exports were up 28 percent; lemons, 8 percent; and mandarins, 63 percent.

Japan's current prohibition on residues of TBZ and OPP fungicides has held exports of U.S. grapefruit (amounting to 128,000 tons through June 1976) and of lemons (59,000 tons) at levels below those of the 1973/74 season. A resumption of significant growth in U.S. citrus exports to Japan apparently will depend on the outcome of mutagenicity and tetragenicity tests being conducted in Japan on TBZ and OPP.

Japan has been by far the largest single market for U.S. grapefruit since 1971 and for lemons since 1964, following the elimination of Japanese import quotas on those fruits in those years.

A review by commodity reveals the production and export situation of major citrus producers:

Fresh grapefruit. Grapefruit production in leading commercial producing countries reached a record 3,624,000 tons in 1975/76, up 13 percent from last season's relatively low level. U.S. output increased to nearly 2,574,000 tons, up 13 percent, while Israel's production reached 447,000 tons, up 10 percent. Production in Argentina, another major world producer, is expected to rise sharply to 249,000 tons, but will

OUTLOOK FOR 1976/77 MEXICAN CITRUS OUTPUT

Unofficial sources in Mexico tentatively have estimated the 1976/77 production of oranges, tangerines, and grapefruit in the four States of Nuevo León, Tamaulipas, San Luis Potosí, and Veracruz at 1,258,000 metric tons, up a third from the 1975/76 freeze-reduced crops. These States produce an estimated 90 percent of Mexico's total output of citrus fruits.

Oranges. Production for the four States combined is forecast at 1,062,000 metric tons, 27 percent above last season's and the highest since 1972/73. Veracruz experienced a normal set and production is projected at 525,000 tons, the same as that of last season's. The crop in Nuevo León is forecast at 300,000 tons, nearly three times last season's 101,800-ton freeze-damaged crop, but still below 1970/71's 360,000 tons. There is concern about the small-sized fruit in both Veracruz and Nuevo León. About 80 percent of the oranges are said to be too small in Nuevo León.

Output in Tamaulipas is forecast at 125,000 tons, about the same as last season's. In San Luis Potosí, production is seen at 112,000 tons, up 36 percent from that of 1975/76, but still far under the 150,000-210,000-ton crops of 1970/71 through 1974/75. Failure to reach these earlier levels in San Luis Potosí is attributed to freeze-killed trees and semi-abandoned groves.

Tangerines. Total four-State output is projected at 152,500 metric tons, compared with just 69,600 tons last season. Production in Nuevo León is forecast at 100,000 tons, nearly five times last season's total, although still under the 104,000-ton records of both 1970/71 and 1972/73. Fruit was reported to be sizing well. Veracruz production is forecast at 42,000 tons, the same as last season's.

Grapefruit. The current outlook is for a record crop of 43,500 metric tons, up 37 percent from that of last season. A good set, normal sizes, and good weather are expected to boost Nuevo León's production to a record 15,000 tons, compared with only 7,000 tons last season. Veracruz production is forecast at a record 22,000 tons, 3,000 above last season's.

be consumed mainly in the domestic market.

Israel's exports of 242,000 tons in 1974/75 were mostly to Western Europe, while U.S. exports of 228,000 tons were largely to Japan and Canada. By June 1976, U.S. grapefruit exports had already surpassed 256,000 tons because shipments to the EC nearly had doubled to 68,000 tons. U.S. grapefruit —particularly the pink and red varieties —have been increasingly popular in the EC since 1970/71. U.S. grapefruit producers stepped up marketing efforts in Europe in 1975/76 because of the larger U.S. grapefruit crop and the risks connected with shipping the fruit to Japan without fungicidal protection. Shipments to Japan—which accounted for 59 percent of total U.S. grapefruit exports in 1974/75—were nevertheless being maintained in 1975/76. Shipments to Canada will be up this season but for the first time may be less than quantities exported to the EC.

Fresh lemons. The outturn of 17 major producing countries is expected to total 2,718,000 tons in 1975/76, 9 percent lower than last season's record high. The decline was due mainly to a 39 percent drop in the size of the California and Arizona lemon crops. Italy was the world's largest producer with a good crop estimated at 785,000 tons. The United States was second with 627,000 tons, and Argentina third with 362,000. Among other major producers, Spain's output reached 267,000 tons.

Italy led world lemon exporters with shipments totaling 230,000 tons in 1974/75. About one-third of its total exports each went to Eastern Europe (including the USSR), West Germany, and the remainder of the EC. Exports were expected to rise to 270,000 tons in 1975/76 with the benefit of the new $1-per-carton subsidy paid on shipments to EC countries.

Italy's lemon exports were reported to be 8 percent higher than during the same period a year ago. Available statistics indicate that EC imports of lemons from all sources have stabilized at about 300,000 tons in recent years. If the EC's imports remain stable, Spain and the United States, the first and third largest suppliers to the EC, are the countries most likely to be displaced by Italy's gains.

U.S. lemon exports of 191,000 tons in 1974/75 (November-October basis) were down for the second straight year, following the 196,000-ton peak of 1972/73. Reduced exports to Japan—the largest U.S. market—were partially offset by greater sales to West Germany, the USSR, and Poland. The 1975/76 season's total U.S. exports through June were down 9 percent from the last year's as exports to West Germany, France, and the Netherlands had dropped sharply. The EC—to which the United States exported 63,000 tons in 1974-75—has shared the spotlight as a growth market for U.S. lemons with Poland and the USSR. Exports to Poland, which totaled nearly 13,000 tons in 1974/75, have grown steadily and were more than four times higher than in 1970/71, while exports to the Soviet Union—at nearly 10,000 tons—were 87 percent higher than the initial U.S. exports in 1972/73.

Fresh oranges. The world's 1975/76 production of oranges and tangerines is expected to be about 3 percent above last season's record high, based on figures from 23 leading commercial producing countries.

U.S. production of 9.9 million tons

Continued on page 11

EUROPEAN COMMUNITY REDUCTIONS IN COMMON EXTERNAL TARIFF RATES ON CITRUS AND CITRUS PRODUCTS GRANTED TO MEDITERRANEAN CITRUS PRODUCERS

[In percentage of reduction[1]]

Country	Oranges	Tangerines	Lemons	Grapefruit	Orange Juice	Lemon Juice
Algeria	80	80	80	80	70	60
Cyprus	40	40	40	40	0	0
Egypt	40	40	40	40	0	0
Israel[2]	60	60	40	80	70	60
Lebanon	40	40	40	40	0	0
Morocco	80	80	80	80	70	60
Spain	40	40	40	0	0	0
Tunisia	80	80	80	80	70	60
Turkey[2]	40	50	50	40	0	0

[1] In effect July 1, 1976. [2] Israel receives a 70 percent reduction on grapefruit juice imports by the EC; Turkey receives 40 percent.

Italy's Cotton Textile Firms Expanding Fiber Use

By DEWEY L. PRITCHARD
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THE ITALIAN TEXTILE industry, one of the largest users of raw cotton in Europe, is believed to have consumed more cotton in the 1975/76 season that ended July 31, than in the preceding one. This is significant since the rise follows a decade of declining use of cotton by Italian textile mills—from 242,000 metric tons in 1966/67 to 180,000 in 1974/75.

Although official statistics are not yet available, this office believes that mill cotton consumption in 1975/76 reached 185,000 metric tons. A further increase is anticipated in the 1976/77 season.

Mill activity was depressed during most of 1975 because weak domestic demand and the world wide textile recession reduced Italy's textile exports. Also textile inventories were reduced throughout the entire distribution system. According to statistics from the Italian Cotton Association, production fell 12 percent in calendar 1975 from that of a year earlier.

At the beginning of the year, textile activity began to show improvement and during the months of January-June output was 17 percent higher than in the same period in 1975. Textiles outpaced recovery in all other sectors of industrial activity during those months. Since then, activity reportedly has continued to be high. Although yarn prices have not kept pace with escalating raw cotton values, much of the cotton now being used by Italian spinners was purchased before prices rose to their current levels.

Consumer demand has improved but there is some apprehension on the part of manufacturers as to how long the demand will last because some of the buying undoubtedly has been stimulated

by inflation. The rate of inflation in Italy in 1976 is expected to continue at an average at least equal to 1975's 17 percent.

The strongest element favoring the use of cotton is consumer preference for natural fibers. While higher costs of manmade fibers—resulting from increased costs of petrochemicals—have played a role in the changed competitive situation between cotton and synthetics, the main factor is this liking for the natural fibers.

Cotton denim, in particular, is very popular in Italy, being used extensively in jeans and other apparel. According to the International Institute for Cotton, jeans comprise 57 percent of the total trouser market in Italy. Seventy-eight percent of the jeans sold in Italy are made of denim, the highest percentage in any West European country, and most Italian jeans are made of 100 percent cotton.

Other end products with a high cotton content include bed linens, underwear, men's shirts, and work clothes. One Italian newspaper has indicated that the 1976/77 winter will see quilted cotton used in outwear as has long been the case in oriental countries.

Italy is noted for its textile products, exported mainly to Northern Europe, including yarn, printed cloth, corduroy, and velveteen. As textile demand continues to improve in those countries, it will have a positive impact on Italian mill operations. The EC recently authorized Italy to use safeguarding measures against imports of both cotton and synthetic textiles from Eastern Europe and Asian countries, which had been entering Italy through other EC countries. These considerations, along with the sharp lira devaluation in effect since last January, should help improve Italy's normal positive balance in textile trade.

Except for some 2,000 metric tons of cotton produced in Sicily, all of Italy's raw cotton is imported. In past years the United States was by far Italy's largest cotton import source but in recent years the U.S. share has declined as imports from other countries, especially Guatemala and the Soviet Union, increased. Other large traditional suppliers included Mexico, Turkey, Sudan, and Syria. In calendar 1975, the United States slipped into second place behind Turkey.

Italy's raw cotton imports from Turkey totaled 28,700 tons, compared with 23,300 tons from the United States. Sudan supplied 22,100 tons; Guatemala, 21,000; the USSR, 18,400; Mexico, 13,500; and Syria, 10,700. Imports from all sources were 194,400 metric tons.

Cotton imports for the 1975/76 marketing year likewise are expected to exceed those of the preceding year. This office has estimated 1975/76 total imports at 170,000 metric tons, compared with 169,000 in 1974/75. During the period August-March, imports from all sources totaled 120,116 tons, or 13 percent more than in those same 8 months of 1974.

Fortunately for the Italian industry, cotton arrivals continued heavy during the early months of 1976 so that in May —when a 50-percent import deposit requirement was imposed by the Italian Government—raw cotton stocks were at a comfortable level relative to mill consumption. Cotton importers, therefore, were able to postpone many deliveries during the period May through July in the belief that the deposit requirement would expire after the 90-day period. However, the measure—which was to have expired August 6—has been extended another 90 days until November 5 and it will be more difficult to postpone deliveries for its duration. The deposit scheme effectively reduces the amount of bank credit available to importers to pay for imports because most operate with fixed lines of bank credit.

"In past years the United States was by far Italy's largest cotton import source but in recent years the U.S. share has declined as imports from (several) other countries increased."

ONE REASON FOR the decline in U.S. cotton's share is the availability of good cotton from other countries at lower prices than for U.S. cotton. The advent of open-end spinning, which has provided the oportunity to Italian spinners to use large quantities of lower quality cotton, has also been a factor.

While this has benefited U.S. short-staple cotton growers it has also made possible the use of more cotton from Turkey, the USSR, and from other countries where lower quality cotton is available. Larger quantities of comber waste material, also being used in Italy, provide another source of competition for U.S. cotton. The cotton wastes have been imported mostly from India and Egypt.

The Italian textile industry, by and large, is modern in terms of technology and equipment—probably as modern as any in Western Europe. Two-thirds of the industry is fully integrated, having both spinning and weaving operations.

At the end of 1975 there were 146 spinning mills in Italy with 3.8 million ring spindles. But ring spindles and looms are declining in numbers as older equipment is replaced with more efficient machinery.

The use of open-end rotors has increased from around 4,200 in 1971 to over 36,000 at the end of 1975, distributed among some 30 spinning mills. In 1975, about 15,000 metric tons of cotton yarn were produced by the open-end system, or less than 10 percent of Italy's total yarn output. But use of this spinning system may grow even more because, in addition to permitting the use of cheaper raw materials, open-end spinning requires less labor. The main disadvantage is its high initial installation cost.

Italy's cotton textile industry—to a certain extent—has been forced to modernize. It is concentrated in the regions of northern Italy, where it must compete with other industries in a tight labor market. The cost of labor in the cotton textile industry, including social benefits, averaged $3.00 per hour (2,534 lire) recently and under a contract, negotiated not long ago, the cost will rise another 11-12 percent.

The industry's modernization efforts are assisted somewhat by Government loans at low interest rates; but aid apparently has been small in the private sector. To support employment, the Government has assumed control of some private companies that became unprofitable to the point of going out of business. The Government has also established some textile manufacturing facilities in southern Italy as part of its industrial development efforts in that area.

200 Years of U.S. Farm Trade Policy

Part II

Increased Interdependence, 1947-1976

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This is the second of two special bicentennial articles focusing on U.S. farm trade policy during the past 200 years. The first, in the October 18, 1976, issue of* Foreign Agriculture, *traced developments through World War II.

FOLLOWING periodic experiments with protectionism in its first 170 years, the United States after World War II moved to liberalize trade. Times had changed markedly and with them this country's trade posture. Burgeoning production of U.S. farm and industrial products was dictating that new overseas outlets be found, revolutionary changes in transportation and communications had narrowed the distance gap, and the nations of the world were becoming increasingly interdependent.

It was an era calling for liberal trade policies and a time of multilateral negotiations under the General Agreement on Tariffs and Trade (GATT), with their steady pursuit of reducing tariff barriers. But while tariffs were lowered, another trade obstacle moved into prominence—the nontariff barrier—and multilateral negotiations at the dawn of this country's bicentennial year were focusing on this rising threat to expanded world trade.

Following development of the GATT in 1947, 22 governments completed a multilateral tariff–cutting exercise that led to concessions on nearly two-thirds of total world trade. Although some of the bargaining was bilateral, the resulting concessions were extended to all members under a most-favored-nation clause that was a central feature of the agreement.

The clause specifies that each nation shall grant nondiscriminatory treatment to the products of all other contracting nations with regard to duties and subsidiary charges, rules, and taxes and other internal regulations.

This set the stage for subsequent rounds of tariff-cutting under GATT, which was to become the main vehicle for tariff negotiations after World War II. Although not nearly as far-reaching as the trade forum envisioned in the defeated International Trade Organization (see part I), the GATT made effective multilateral tariff negotiations possible. It also provided for adjustments, consultations, the settlement of disputes, and the resolving of members' special problems without undermining the GATT framework of general principles, or leading to trade retaliation.

U.S. negotiating authority in the first round of GATT derived from the Trade Agreements Act of 1934, including a 1945 change allowing the President to cut U.S. import duties up to 50 percent more than the reductions authorized with the Act's original passage.

In 1948, the Trade Agreements Act came up for renewal, with a resulting 1-year extension carrying several important amendments. These included the "peril point" clause that required the Tariff Commission to establish rates of duty below which tariffs could not be cut without damaging U.S. industry.

Changes were made in the provisions of Section 22 of the Agricultural Adjustment Act of 1933 as amended, which gave more flexible authority for the President to restrict, through the use of quantitative limitations or fees, imports that interfered with U.S. price support programs.

The 1948 extension of the Trade Agreements Act was repealed in 1949, the peril point amendment eliminated, and the Act extended retroactively from 1948 for a 3-year period.

The United States participated in two additional rounds of tariff negotiations within the GATT framework under the 50-percent tariff-cutting authority. One was held in 1949, at Annecy, France, with 10 more countries becoming contracting parties to the GATT, and another held at Torquay, England, in 1950/51.

From then through 1958, Congress periodically extended the Trade Agreements Act, making the following major changes:

- In 1951, restored the peril point clause, suspended tariff concessions on imports from the USSR and Communist-dominated countries, and made mandatory the escape clause;
- In 1953, created a 17-member bipartisan Commission on Foreign Economic Policy (the Randall Commission) to study and report on international trade and its enlargement;
- In 1955, gave the President authority to reduce U.S. duties by an additional 15 percent during a 3-year period, thus allowing the United States to participate in the fourth round of GATT negotiations in 1956.
- In 1958, gave the President authority to reduce duties by another 20 percent on an item-by-item basis. Use of this authority, however, was highly limited in the fifth GATT negotiating session (the 1960/61 Dillon Round) by a number of protective clauses. A major practical limitation was the requirement that U.S. tariffs not be reduced below certain "peril points," which were to be determined by the Tariff Commission.

This fifth GATT session was the first held after formation of the European

Community (EC) and the United States moved to obtain a reduction in the Community's common external tariff in order to help offset the trade diversions that were to result from the step-by-step reduction of duties between EC members. One notable achievement regarding the EC was the binding in GATT of the duty-free status of EC imports of soybeans, linseed, flaxseed, oilcakes, and cotton. Today, oilseeds and products account for 37 percent of U.S. agricultural exports to the EC.

While international trade was being encouraged through these five rounds of multilateral negotiations between 1947 and 1961, the United States was facing another problem—agricultural surpluses. The buildup in U.S. surpluses began in 1953 with a 27-percent decline in volume of U.S. agricultural exports. Following that drop, carryover stocks of wheat, corn, and cotton rose rapidly from their relatively modest levels of 1952.

To remedy the situation—and continue humanitarian assistance inaugurated earlier—the concept was developed to use U.S. surpluses to help countries that could not purchase commercially the food and fiber they needed. This was to be done primarily through sales for local (foreign) currencies.

The 83rd Congress approved the concept and incorporated it into the Agricultural Trade Development and Assistance Act of 1954, or Public Law 480, which soon became an important instrument of U.S. foreign policy. Foreign currencies generated through the program, in turn, were used to promote U.S. farm products overseas, and for other purposes.

In addition to P.L. 480 sales, subsidies continued to be used to finance disposal of U.S. surpluses abroad. Export sales below costs also were made from surplus inventories acquired by the Commodity Credit Corporation through its price support programs.

Other agricultural exporting countries looked at P.L. 480 with some apprehension because they feared that U.S. sales for local currencies might reduce their own commercial export opportunities. This concern subsided as foreign competitors realized that in the administration of Title I sales for local currencies the United States had no intention of taking their regular commercial markets.

Since its passage in 1954, some significant changes have taken place in the P.L. 480 program.

In the mid-1960's, the program's objectives shifted from basically surplus disposal to the use of food aid to develop and expand export markets, to encourage economic development, to meet emergency food needs, and to combat malnutrition and hunger abroad.

In 1966, P.L. 480 was amended to provide for the transition to a concessional dollar sales program under Title I. Countries were provided agricultural commodities at low interest rates with repayment over an extended period in dollars or convertible local currencies. Since 1971, all Title I agreements have been this type.

In 1966, P.L. 480 was amended also to require that before negotiating Title I agreements, the United States must determine whether recipients are taking self-help measures to promote their own agricultural production.

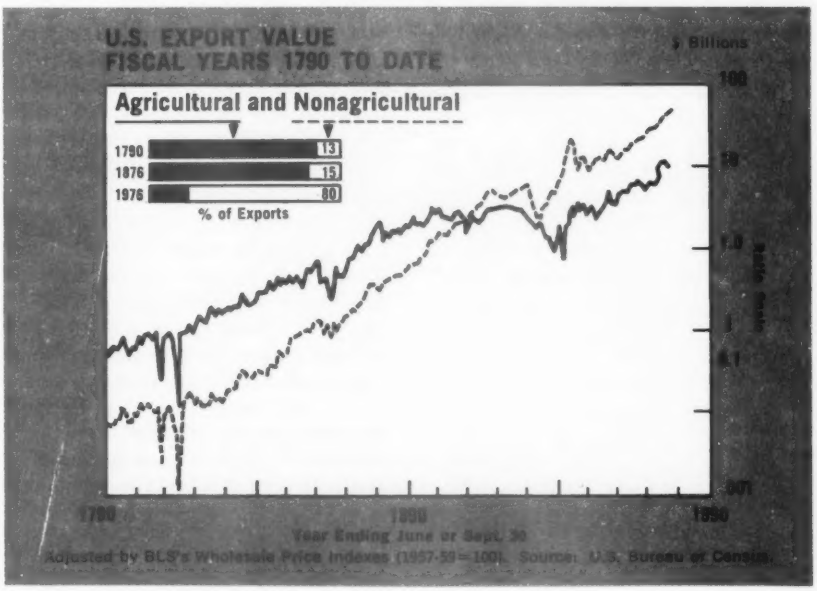
In 1973, the P.L. 480 operating authority was extended through December 31, 1977. Recent amendments to P.L. 480, included in the International Development and Food Assistance Act of 1975, increased the emphasis on economic development and humanitarian food assistance.

During the mid-1960's, multilateral negotiations under GATT once again were launched. This time, however, the United States was acting under new legislation supported by President Kennedy to remedy the inadequacy of U.S. negotiating authority that became apparent in the fifth round of GATT negotiations.

This new legislation, the Trade Expansion Act of 1962, gave the President much more power than conferred in any single tariff law since the original Trade Agreements Act of 1934. Many of the restrictive clauses of earlier trade legislation, particularly the "peril point" provisions, were not included in the new Act. However, it did call on the Tariff Commission (now the U.S. International Trade Commission) to advise the President on the "probable economic effects" that changes in duties or other import restrictions might have on U.S. industries.

More importantly, the Act provided a major innovation with its provisions for adjustment assistance to firms and workers if, "as a result in major part" of U.S. trade agreement concessions, imports "cause, or threaten to cause, serious injury" to the firm. The underlying philosophy was that the remedy for increased imports should be adjustment to new competitive conditions or a shift of resources to other activities, rather than trade restrictions that would result in retaliation, loss of export markets, and higher consumer prices.

Backed by this new negotiating authority, the United States in May 1964 entered into the sixth round of GATT trade negotiations—the Kennedy Round.



When the Kennedy Round formally opened in Geneva, the major participants agreed to work toward a 50-percent across-the-board reduction in tariffs. Exceptions to this policy were to be limited to those necessitated by overriding national interests. The other objectives of the negotiations were to cover all classes of products; to provide access to world markets for farm products; to include nontariff as well as tariff barriers; and to reduce barriers to exports of less-developed countries, although these countries would not be expected to reciprocate fully for benefits received.

It was decided to proceed first with negotiations of industrial products, since the agricultural negotiations were being delayed by a disagreement on procedures and by the EC's lack of readiness to negotiate on farm products.

THE AGRICULTURAL negotiations finally got underway in September 1965 with an exchange of limited offers by principal importing and exporting countries over the contents of an International Cereals Arrangement.

Despite difficulties in negotiating—and generally smaller reductions made for farm than for industrial products—tariff concessions were made on a wide range of farm products. The United States obtained concessions on soybeans, tallow, poultry, and horticultural products, including citrus and canned fruit. These covered nearly $870 million worth of U.S. agricultural exports. The United States, for its part, made tariff concessions on $610 million worth of agricultural imports from participating countries.

In addition, the essentials of an International Grains Arrangement were agreed upon, and provision was made for further negotiations. Under the sponsorship of the International Wheat Council, the International Grains Arrangement was concluded in 1967. It provided a higher price range for wheat, which in practice was not fully realized, and also established the Food Aid Convention under which a number of countries would share in supplying food aid to developing countries.

In the area of nontariff barriers, the negotiations led to an antidumping code that reinforced antidumping provisions of Article VI of the GATT with agreed practices and procedures to be followed by the major trading countries.

The Kennedy Round stands out as the GATT exercise involving the deepest average tariff reductions, with most of the gains, however, going to industrial trade. For agriculture, it ended up being primarily a tariff negotiation leading to modest liberalization of trade.

Between July 1967—when Presidential negotiating authority under the Trade Expansion Act of 1962 expired—until August 1970, no major trade legislation was acted upon by the Congress. At that time the proposed Trade Act of 1970 (H.R. 18970) received approval by the House Committee on Ways and Means. But with the adjournment of the 91st Congress in January 1971, the proposed bill died since it had not received Senate approval after having undergone many changes, additions, and deletions.

This void was eventually filled with the Trade Act of 1974, which granted the President broad, but not unlimited, authority to reduce tariffs over a 15-year period.

Also, the President was empowered to negotiate agreements reducing or eliminating nontariff barriers to trade, to put an agreement into effect after giving Congress a 90-day notice and the right to veto the agreement, to grant preferential trade treatment to developing countries, to liberalize the relief and adjustment provisions in the Trade Expansion Act of 1962, and to retaliate against other countries engaging in unfair or illegal practices affecting U.S. exports, including those by competitors in third markets.

The most-favored-nation principle, withheld from Communist countries except Poland and Yugoslavia since 1951, was extended to the Soviet Union following assurances that the USSR would relax its restrictive emigration policies.

Unlike the parity acts and the trade agreements legislation of the 1930's, the Agricultural Act of 1970 and the Agricultural and Consumer Protection Act of 1973 inaugurated an international commodity policy for agriculture based on the same principles as domestic agricultural policy. This includes seeking market orientation, elimination of production and import restraints on agricultural products, removal of restraints limiting consumption, and adoption of policies to stimulate food production in chronically food-deficit countries.

As agriculture's role in U.S. foreign economic policy has increased, greater need for coordinating U.S. Government policy recommendations has developed. In response, President Ford announced on March 5, 1976, the reorganization of the Administration's policymaking process, and assigned the Secretary of Agriculture to chair the new cabinet-level Agricultural Policy Committee. This committee consolidated all agricultural policymaking functions of existing executive branch committees. The committee reports directly to the President and advises him on the formulation, coordination, and implementation of significant agricultural policy issues affecting the U.S. position on domestic and international matters.

Under authority of the Trade Act of 1974, the United States once again is involved in multilateral trade negotiations—this time with more than 90 other participants in the so-called Tokyo Round launched in Tokyo in September 1973. But since substantial tariff reductions already have been achieved in previous negotiating sessions—and since tariff barriers increasingly are being replaced by other restrictions—the current round is taking a somewhat different focus than in the past.

The United States, for instance, is concentrating its major negotiating thrust on nontariff barriers, to which agricultural products are especially vulnerable. These include variable levies, import quotas, export subsidies, packaging and labeling standards, government procurement practices, customs valuation methods, import licensing requirements, and sanitary regulations.

The United States also wants to keep the agricultural and industrial negotiations together, rather than separated as they were in the Kennedy Round.

THIS IS IN part because the United States maintains a relatively low level of tariff protection against farm imports. Therefore, in the agricultural area alone it has less to offer in exchange for concessions in other markets.

The opposite tack is being taken by the European Community and some other countries hoping that most trade concessions will be made in the industrial area.

Besides focusing on nontariff barriers, U.S. policy is oriented to easing other barriers and trade distortions, including export subsidies and countervailing duties. When products are being subsidized for export into the U.S. market, the

Continued on page 12

U.S. Exports to Mexico Clouded by Peso Devaluation

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ON AUGUST 31, the Mexican Government broke a 22-year-old tradition—the fixed exchange rate between the Mexican peso and the U.S. dollar. Propelled by Mexico's deteriorating balance of payments situation and its high rate of inflation, the devaluation was one of the largest to have taken place for any currency since the end of World War II. The devaluation could dampen some U.S. exports to Mexico —particularly those products whose sales volume is very sensitive to price changes.

As of October 15, the peso was selling for 19.7 to the dollar (5.08 cents) compared to the exchange rate it has maintained since 1954—12.5 pesos to the dollar (8 cents). From the viewpoint of U.S. importers and tourists, the devaluation has been roughly 36 percent.

An item costing 10 pesos that used to convert to 80 cents now converts to 51 cents. The Mexican importer, on the other hand, who used to purchase a $10 item from the United States for 125 pesos, now pays 197 pesos—an increase of approximately 58 percent.

The U.S. interest in the effect of the devaluation of the peso on U.S.-Mexico trade is substantial. In 1975 Mexico imported $587 million worth of U.S. farm products, while U.S. agricultural imports from Mexico amounted to $509 million.

Major U.S. agricultural exports to Mexico include corn and other feed grains, wheat, hides, dried beans, soybeans and products, and live cattle for slaughter (maquila beef). Important Mexican exports to the United States are coffee, live cattle (feeder types), beef, tomatoes, sugar, and a variety of fruits and vegetables.

Fortunately, U.S. exporters are not alone in facing a changed competitive situation—all exporters to Mexico face the same situation. But, while the U.S. competitive position, relative to other exporters, has not been hurt, Mexico's total demand for imports could be dampened.

One reason Mexico decided to devalue the peso was its balance of payments deficit, which, in turn, was related to the Government's fiscal policies, undertaken in order to maintain domestic demand when foreign demand declined during the recent world recession. Since domestic production did not keep up with demand, higher prices and larger imports resulted. Mexican imports increased from roughly $3 billion in 1972 to $6.5 billion in 1974 and 1975. Exports did not expand nearly so quickly, and the deficit on goods and services rose from roughly $1 billion in the early 1970's to $4.2 billion in 1975. These conditions led to the expectation of a devaluation and caused a flight of capital. The loss of capital made devaluation almost a certainty.

High inflation rates also contributed to the devaluation. Inflation rates in Mexico in 1970-72 were roughly the same as those of the United States during that same period. By 1973-75, however, Mexico's inflation rate was nearly twice that of the United States, and in the first half of 1976 the rate had climbed to nearly 2.5 times that of the United States. Since about 60 percent of Mexico's foreign trade (imports and exports) is with the United States, the devaluation was even more desirable. No nation can afford to let its prices get very far out of line with those of its main trading partner (or partners) without losing exports and importing more than foreign exchange can allow.

The effects of devaluation will be offset to some extent by the new export taxes and reduction in import duties announced on September 8. The Mexican Government stated that these measures were necessary to prevent a rise in internal prices and to divert part of the windfall profits arising from devaluation to the national treasury. These taxes will be repealed when the competitive situation no longer warrants them, according to the Government statement. The reduction in import duties was also announced as a temporary measure. In addition, the former export tax rebate for processed agricultural goods is to be repealed. Anticipated internal wage and price increases will further erode gains to exporters from the new peso value.

Under the new exchange rates, export duties for most unprocessed agricultural products have been set at 18 percent. For manufactured products, duties have been set at 6.5 percent—a figure that also applies to processed citrus and tomatoes, fresh and frozen strawberries, and certain sugar and confectionery items. However, the 18 percent rate will apply to raw and refined sugar, as well as to cotton. Unprocessed coffee will pay a 38 percent rate. The rates are

MEXICO: SELECTED IMPORT DUTIES
[Percent]

Commodity	Rate prior to Sept. 8, 1976	Rate after Sept. 8, 1976
Breeding sheep, swine	10	Free
Fresh and frozen beef	20	10
Fresh citrus	75	35
Fresh apples and pears	75	35
Soybean flour	50	Free
Veg. protein (23.04.A001)	10	Free
Veg. protein (21.07.A999)	35	10
Condensed and evaporated milk	50	10
Popcorn	15	10
Lard	25	10
Tallow	25	10
Fruit cocktail	100	20
Orange juice	100	20
Unmanufactured tobacco	100	10
Wines, other than fine wines	100	35
Raw hides and skins	10	Free

subject to change, however, as they are constructed on a sliding scale, dependent on the value of the peso.

On the import side, duties have been reduced for a number of commodities in order to keep food and other prices from rising.

Now that the peso has been devalued, Mexico has two economic options.

The benefits of devaluation may be offset if domestic wages and prices increase to any great extent, or if other financial policies are instituted which inhibit exporters from lowering—or at least holding constant—their prices in the world market. Some of the policies mentioned previously will have this effect. If prices do rise substantially, another devaluation could become necessary.

Mexico's other option is to keep wages more or less constant, reaping the benefits of devaluation. In the long run, this is the more viable economic alternative, but it implies a higher cost of living and slower economic growth than in recent years—a difficult position to take. Mexico's population is growing at an annual rate of 3.5 percent, one of the highest rates in the world. Slower economic growth could mean a decline in average incomes in a country where incomes are already very low for many people.

Despite the need to devalue the peso, Mexico has several factors working in favor of its economy. One factor is its large oil reserves. Extensive investments in oil production are planned through Mexico's Government-owned company, Petroleos Mexicanos (Pemex). With the drilling of new oil areas in the states of Chipas and Tabasco, Mexico's current output of oil is nearing 900,000 barrels per day. This output is sufficient not only to cover the country's own oil requirement, but to permit oil exports—$117 million in the first quarter of 1976. By the end of the current year, Mexico's oil output is expected to be 1.02 billion barrels per day—a rise of 110 percent since December 1970.

In addition, after 2 years of exploratory drilling in Baja, California, Pemex recently discovered deposits of hydrocarbons—natural gas—the first discovery of its kind on the peninsula. Geologists also expect to find petroleum nearby. The natural gas deposit is located on the Pacific side of the peninsula, less than 500 miles southeast of San Diego, California—a potential market for any excess natural gas.

While the current outlook for U.S. agricultural exports to Mexico may seem a bit cloudy, the long-term outlook is encouraging if Mexico is able to handle its current financial difficulties. One possible outcome is the exchange of U.S. agricultural exports for foreign energy.

Swiss Grain Milling Down Following Lower Consumption

Switzerland's bread grain and Durum milling, as well as bread flour production, fell in 1975 to record lows for recent years. As one of the main suppliers of high protein wheat and Durum to Switzerland, the U.S. interest in this situation is significant, yet little can be done to reverse the downward trends caused by lower consumption.

Milling of bread grains declined to 442,910 metric tons in 1975, down 5.7 percent from 469,870 tons in 1974, while Durum milling also fell—4.1 percent last year—to 70,840. Of the total bread grains milled in 1975, over 69 percent were domestic grains and the rest were imported, compared with 1974 when only 61.2 percent were domestic.

Switzerland imports roughly one-third of its wheat from the United States. Imports of U.S. wheat dropped 48 percent in 1974/75 to 58,000 tons from 112,000 tons in 1973/74.

Contributing to the increase in domestic wheat and rye milling was the September 1, 1975, requirement that cut imported wheats from 35 to 30 percent of the grind. This cut reflected the need to use more of the ample domestic stocks of bread grains kept by the Swiss Grain Board and the millers themselves.

The Swiss Grain Board also issued a statement reducing the proportion of rye in the grind from 8 to 6 percent, effective February 1, 1976, which meant that the share of domestic rye in the total volume milled decreased. There is, however, no domestic quota for Durum, as all of it is imported.

Bread flour output also declined in 1975 to 338,740 tons, a drop of 4.8 percent. As compared with the average of the years 1973/74, the decline amounted to 6.3 percent, with the 1975 total representing the lowest production in 15 years. Included in the 1975 total were 16,530 tons of flour for export and industrial purposes, which rose 6.5 percent. Over 72 percent of this flour total represented deliveries to developing countries satisfying Swiss Food Aid obligations.

An analysis of the flour varieties produced shows that white flour production continued to decline in 1975, reaching the lowest level in 11 years—112,210 tons. Production of half white flour, on the other hand, steadily increased, reaching a 6-year peak in 1975 of 143,560 tons. Dark flour production also continued to decline while milling of special flours reversed the upward trend in recent years and fell 8 percent to 23,490 tons.

The recent lows in milling are a result of the recession in Switzerland and the exodus of roughly 100,000 foreign laborers, whose bread consumption was especially high. In addition, a reduction in total Swiss bread consumption has been noted. Pastry consumption has tended to substitute somewhat for bread due to higher disposable incomes and a greater degree of enjoyment from more "refined" food.

Although the economy is showing signs of recovery, there is little chance that bread and pasta consumption will rise. The Swiss are reluctant to allow unlimited foreign access to their labor market, normally attractive to the high bread and pasta consumers from Mediterranean countries, nor is it likely that eating habits of the growing postwar population will include more bread and pasta. To arrest this trend toward lower bread consumption, Swiss millers plan to increase their bread promotion in the future.

The commercial flour milling industry has also been undergoing changes. The trend toward larger mills is continuing, with almost 57 percent of the market share held by 19 mills with an annual milling capacity of over 6,000 tons, 40 percent by 66 mills with a capacity of 500-6,000 tons, and 3 percent by 84 mills with a capacity of up to 500 tons.

—Based on a report from
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U.S. Citrus Exports

Continued from page 4

was up 2 percent from that of 1974/75. Brazil (São Paulo State only) ranked second with 4.4 million tons, up 8 percent, while outturns in the principal Mediterranean producing countries were forecast at 9.2 million tons, about the same as the 1973/74 record high.

OVERALL PRODUCTION of the Mediterranean region has been stable since 1972/73; however, Egypt, Greece and Italy are producing larger shares. Meanwhile, Morocco's production has slipped by nearly 300,000 tons from 1972/73's 1-million-ton level because of hot and dry weather. Good weather would boost production considerably with most of the increase going into export markets in Europe.

Production increases in Brazil and Japan have been the most rapid in the world. Brazil's orange production is up 60 percent since 1971/72, while Japan's —at 4.2 million tons in 1975/76— is up 46 percent since 1971/72. Continued growth is expected in both countries, particularly in Brazil, where production is geared to greater processing use.

Nearly one-third of the Mediterranean region's production was exported as fresh fruit in 1974/75, largely to Europe, the USSR, and the Middle East. The United States and South Africa also exported significant quantities: The United States, 479,000 tons (5 percent of its production) and South Africa, 304,000 tons (62 percent of output).

U.S. orange exports to the EC reached 122,000 tons, up 143 percent from 1973/74, while exports to the German Democratic Republic jumped to 21,466 tons in only the second year of trade. U.S. orange trade has apparently benefited from the EC's reduced, summer-season duty rates effective since May 1974. The smaller harvests in Morocco also permitted U.S. exporters to move more fruit to Europe early in the summer season. Both Canada and Hong Kong—the United States No. 1 and 2 single country markets—increased purchases substantially in 1974/75. Exports of 10,000 tons to Iran and 4,000 tons to Saudi Arabia were the first to those countries from the United States, while major increases to Singapore, Indonesia, Malaysia, Sweden, and Norway were also encouraging.

Citrus juices. The United States, Brazil, Israel, Morocco, Greece, Spain, Italy, South Africa, Argentina, and Mexico account for most of the world's production of and trade in citrus juices. Although the United States is by far the largest producer, Brazil has become the largest exporter. In 1975, Brazil's orange juice concentrate exports shot up to 181,000 tons (compared with U.S. exports of about 66,000 tons) as a result of sharply greater exports to Canada, Israel, and Western Europe. Another increase to 225,000 tons is seen for 1976. (See *Foreign Agriculture*, Oct. 10, 1976.)

The 1975 exports were about five times the 1970 level and up from just 108,000 tons in 1974. Brazil's low export prices and rapidly increasing orange production provide formidable competition for the United States and other orange juice processing countries.

Of all U.S. citrus juice exports, only orange and grapefruit frozen concentrates have risen in the last 5 years. The 13.5 million gallons of frozen concentrated orange juice exported in 1975 were more than double the 1970 level. Despite the increased penetration by Brazil's orange concentrate in 1975, the Canadian market expanded, accounting for 53 percent of total U.S. frozen concentrated orange juice exports, followed by the EC with 20 percent, and the Scandinavian countries of Sweden, Norway, and Finland with 19 percent. Although these countries have been the dominant markets for U.S. frozen concentrated orange juice, exports to Australia, the Caribbean, the Bahamas, and Bermuda—though still relatively small —have shown the most rapid growth.

Australia began importing frozen concentrated orange juice in 1973 when an unexpected growth in consumer demand caused a shortfall in domestic processing oranges. In succeeding years these imports continued and expanded as importers and processors found that imported orange concentrate could be purchased at lower prices than juice processed in Australia. Following vigorous grower representations, the Australian Government established a 1-year tariff quota on imported orange concentrates that will reduce imports in the year beginning July 1, 1976. The Government is now studying the need to protect Australia's domestic citrus industry beyond July 1, 1977.

With an annual per capita consumption of less than one-half gallon (single-strength basis) of orange juice (including tangerine juice), Japan has the most promising potential. But imports are currently, restricted by quota to 1,000 metric tons of orange concentrate a year. The U.S. industry argues that an enlarged quota to permit blending with Japan's tangerine juice would result in a more acceptable product for Japanese consumers and aid in clearing away Japan's tangerine surplus.

Canada continues to be an excellent, expanding market for U.S. frozen concentrated and single-strength grapefruit juice. The 1974/75 season's (November-October basis) shipments of 781,000 gallons of frozen concentrated grapefruit juice were nearly double those of five seasons before, while single-strength grapefruit juice exports were 3.6 million gallons (single-strength basis), up 14 percent from the 1970/71 season. Although the European market for grapefruit juices remains large, both single-strength and concentrate sales have declined. U.S. frozen grapefruit juice sales to Europe in 1974/75 consisted of 486,000 gallons (concentrate basis) of frozen and hot pack concentrates and 827,000 gallons (single-strength basis) of single-strength juice.

U.S. exports of canned, single-strength grapefruit juice to the Middle East and the Caribbean area have risen in recent years.

Romania Expects To Export Wheat From 1976/77 Crop

Romanian officials report that country is expecting one of its best wheat crops ever—around 6 million tons.

At least 1 million tons of this crop should be available for export during 1976/77, which would almost double last year's exports.

Romania recently sold 500,000 tons of wheat to Yugoslavia. Romania has purchased 204,000 tons of U.S. Soft Red Winter wheat for shipment this marketing year. Part of this quantity may be used as animal feed.

The corn crop this season also is expected to be a good one. Based on the Government's planted-area figure of 3.5 million hectares, the crop could exceed 9 million tons, which would be above the recent average. This figure is higher than the earlier forecast, and if realized, should leave several hundred thousand tons available for export.

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U.S. Trade—Part II

Continued from page 8

U.S. countervailing duty law can be invoked. When the United States is meeting unfair competition in third country markets, the Trade Act of 1974 provides authority for the President to take corrective measures. But since a multilateral solution to the subsidy problem would likely be more effective than unilateral action, the United States hopes to get agreement in Geneva on a comprehensive code on the use of subsidies and countervailing duties.

Two-thirds (by value) of U.S. agricultural exports are subject to one kind or another of foreign trade restriction. A general round of trade negotiations should offer U.S. agriculture an opportunity to negotiate away some of these barriers. Otherwise, the "ever greater liberalization" referred to in Tokyo will have much less meaning for American agriculture.

Recently, increases in U.S. production of grains and soybeans and in the U.S. share of world grain trade have also raised the need for improved assessment of import needs of U.S. customers. As a result, the United States has held trade policy discussions and reached understandings with some countries aimed at defining their future purchases of U.S. farm products. Such understandings were reached with Japan, Israel, Poland, and Romania.

These understandings, along with the moratoriums on grain sales in recent years, have stimulated frequent discussions concerning the use of bilateral rather than multilateral agreements in fulfilling U.S. trade commitments.

In addition, the United States and the USSR last year concluded an agreement designed to solve an unusual problem-transcending remedy by the "understanding approach."

The policy of trade expansion, inaugurated with the reciprocal trade agreements program in the 1930's, in general has brought substantial benefits to American agriculture.

U.S. exports of farm products as a share of total exports have declined over time as the nation has industrialized—currently accounting for 20 percent of total U.S. exports compared with 85 percent 100 years ago—but they continue to expand and set new records. In fiscal 1976, these agricultural exports reached a record $22 billion, which—after adjusting for price changes—is 15 times the volume in 1941, when shipments were severely disrupted by World War II and were more than three times the pre-World War II peak reached in the early 1920's.

Moreover, only agriculture has had a favorable trade balance in recent years. In fiscal 1976, U.S. agricultural exports exceeded agricultural imports by $12 billion.

American agriculture assuredly stands to benefit in the future from a policy of trade expansion. The foreign market, unlike the domestic market, has the potential for a more significant further growth. In the domestic economy, demand for food will likely be constrained by a slower rate of population increase, whereas the potential for expansion in food supplies is much greater. In the foreign economy, rapid population growth, coupled with a more limited potential for expansion of the food supply, should contribute to widening the market for U.S. farm exports.

U.S. RICE EXPORT PROSPECTS STRENGTHENED

Recent developments in several foreign areas have caused the world rice market to strengthen somewhat, and this may improve prospects for U.S. rice exports in the 1976/77 marketing year.

The effects of reduced rice crops for several South American exporters, a likely decline in Pakistan's export prospects, a lower outturn of rice crops in the southeast Asian area, and smaller export offerings by the Peoples' Republic of China have combined in recent weeks to improve prices somewhat.

Thai 100 percent first-grade rice was quoted at $280 per ton, f.o.b., in early September, but had increased to $300 per ton by September 22. Information from Hong Kong and Europe also indicates strength in rice prices.

Production in Thailand is projected to decline by about 500,000 tons this year from last year's record 15-million-ton harvest. This harvest and decreased carryover stocks of rice could limit exports in calendar 1977 to only about two-thirds of this year's estimated level of 1.5 million tons.

Extended periods of heavy rainfall and flooding in Pakistan are estimated to have reduced this year's rice crop.

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